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State to build public-private partnerships

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California's budget crisis, debacle though it was, has produced some unexpected benefits. One is a de facto cap that would limit budget volatility by depositing revenues above a moving average in a rainy day fund that could be used to backfill the budget when revenues are low. That measure, extracted by Republican Assemblyman Abel Maldonado as his price for supporting higher taxes, will be on the May 19 ballot as Proposition 1A. There was also an overlooked jewel buried in the compromise – an agreement that could stimulate public-private partnerships (PPPs) to build and operate infrastructure in the state.

Carried by the Governor in the budget negotiations, the new provision – which does not need voter approval in May – opens the door to unlimited public-private partnerships to build transportation infrastructure through 2017. To support this it creates a Public Infrastructure Advisory Commission as an adjunct to the state's Business, Transportation and Housing Agency (BT&H), to assist the California Department of Transportation and regional transportation agencies in developing PPP projects. Among its other responsibilities, the Commission will identify project opportunities, evaluate the experience in other jurisdictions for lessons learned, identify best practices, and help assess the suitability of future projects for PPP development.

What's remarkable about this agreement is how far it moves the process from the prevailing status quo. Under legislation in place since 2005, only four projects were permitted, they were limited to goods movement, and agreements were subject to approval by the legislature. It was politically designed to fail, since this could not constitute a critical mass sufficient to attract private investors, and no company was likely to risk negotiating a complex concession only to have it reopened and killed by a politicized legislature. Behind these barriers was the union representing Caltrans engineers which, protective of public sector jobs (and at the expense of private sector unions), had stalled the debate.

The agreement delivers on the Governor's 2008 proposal to create a PPP program modeled on Canada's successful Partnerships BC. In 2005 the Bay Area Economic Forum (now the Bay Area Council Economic Institute) analyzed the PPP model pioneered by the United Kingdom, and how its application in California could save state resources and build new infrastructure faster. Besides British Columbia, Ontario (Canada), Victoria (Australia), and many other states (23 at last count) and countries are far ahead of California in using PPPs.

PPPs aren't limited to transportation: schools, hospitals, courthouses and an array of public facilities may be candidates. And PPPs are not a panacea: they aren't suitable for every project, and require strict oversight and standards – the kind of standards the new Commission can be expected to deliver. But in the right circumstances they can attract badly needed finance, improve service, and conserve state resources for other priorities.

As the saying goes, it's a shame to waste a crisis, and sometimes extraordinary circumstances are needed to break a logjam. While the budget crisis was a sorry spectacle, freeing the state to pursue public-private partnerships was an unexpected gain.

R. Sean Randolph is president & CEO of the Bay Area Council Economic Institute.